

MARICOPA COUNTY MEDICAL CENTER

Report on Audit of Financial Statements

June 30, 2004

MARICOPA INTEGRATED HEALTH SYSTEM

MARICOPA COUNTY MEDICAL CENTER
Report on Audit of Financial Statements
June 30, 2004

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Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited the accompanying financial statements of the Maricopa County Medical Center as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Maricopa County Medical Center's financial statements are intended to present the financial position, and changes in financial position and cash flows of only that portion of the business-type activities and major funds of the County that is attributable to the Medical Center Fund. They do not purport to, and do not, present fairly the financial position of Maricopa County as of June 30, 2004, and changes in its financial position and its cash flows, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maricopa County Medical Center as of June 30, 2004, and the changes in its financial position and its cash flows, for the year then ended in conformity with U.S. generally accepted accounting principles.

Debbie Davenport
Auditor General

December 3, 2004

MARICOPA COUNTY MEDICAL CENTER
Statement of Net Assets
Enterprise Fund
June 30, 2004

Assets

Current assets:

Accounts receivable (net of \$39,762,318 allowance for uncollectible accounts and \$30,165,646 allowance for contractual adjustments)	\$ 48,040,909
Due from other county funds	35,709,097
Due from other governments	1,163,164
Inventory of supplies	6,523,892
Prepaid items	<u>1,418,959</u>

Total current assets	<u>92,856,021</u>
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Noncurrent assets:

Restricted cash and investments held by trustee	2,358,527
Capital assets, not being depreciated:	
Land	1,722,193
Construction in progress (estimated cost to complete \$4,337,798)	<u>8,897,465</u>

Total capital assets, not being depreciated	<u>10,619,658</u>
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Capital assets, being depreciated:

Buildings	101,073,893
Improvements other than buildings	3,594,604
Machinery and equipment	<u>82,419,846</u>
Total capital assets, being depreciated	187,088,343
Accumulated depreciation	<u>(105,535,317)</u>

Total capital assets, being depreciated, net	<u>81,553,026</u>
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Total noncurrent assets	<u>94,531,211</u>
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Total assets	<u>\$ 187,387,232</u>
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(Continued)

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Net Assets
Enterprise Fund
June 30, 2004
(Continued)

Liabilities

Current liabilities:

Vouchers payable	\$ 18,938,591
Employee compensation	8,784,565
Accrued liabilities	1,421,763
Due to other county funds	21,942,321
Due to other governments	2,852,434
Deferred revenue	1,733,203
Accrued interest on short-term borrowings	82,009
Advances from other funds	34,006
Installment purchase agreements, current portion	393,200
Certificates of participation, current portion	365,000
Bonds payable, current portion	1,386,864
Interest payable for long-term debt	<u>606,663</u>

Total current liabilities	<u>58,540,619</u>
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Noncurrent liabilities:

Advances from other funds	374,071
Installment purchase agreements	858,849
Certificates of participation	5,500,000
Bonds payable	<u>15,207,425</u>

Total noncurrent liabilities	<u>21,940,345</u>
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Total liabilities	<u>80,480,964</u>
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Net Assets:

Invested in capital assets, net of related debt	68,053,269
Restricted for:	
Debt service	2,358,527
Unrestricted	<u>36,494,472</u>

Total net assets	<u><u>\$ 106,906,268</u></u>
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See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Revenues, Expenses, and Changes in
Fund Net Assets—Enterprise Fund
Year Ended June 30, 2004

Operating revenues:	
Patient service revenues	\$ 716,375,670
Deductions from patient service revenues:	
Contractual and administrative adjustments	
(including \$81,430,245 of Medicare billings	
in excess of cost reimbursements)	(152,434,402)
Maricopa County Health Plans/Arizona Health Care	
Cost Containment System contractual adjustments	<u>(211,251,575)</u>
Net patient service revenues	<u>352,689,693</u>
Other operating revenues:	
Disproportionate share settlement	103,317,300
Charges for services	20,823,685
Other	<u>2,839,037</u>
Total other operating revenues	126,980,022
Deductions from other operating revenues:	
Disproportionate share reimbursements	<u>(99,115,000)</u>
Net other operating revenues	<u>27,865,022</u>
Net operating revenues	<u>380,554,715</u>
Operating expenses:	
Daily hospital services	83,330,670
Outpatient nursing services	49,307,990
Special nursing services	20,824,448
Ancillary services	63,847,644
General services	21,905,004
Fiscal services	24,077,971
Administrative services	11,787,922
Medical services administration	20,367,668
Provision for doubtful accounts	35,350,408
Indigent patient direct write-offs	16,938,127
Depreciation	13,311,883
Other	<u>8,584,431</u>
Total operating expenses	<u>369,634,166</u>
Operating income	10,920,549

(Continued)

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Revenues, Expenses, and Changes in
Fund Net Assets—Enterprise Fund
Year Ended June 30, 2004
(Continued)

Nonoperating revenues (expenses):	
Grant revenue	\$ 5,343,030
Interest income	9,833
Interest expense	(1,774,501)
Other	<u>(583,137)</u>
Net nonoperating revenues	2,995,225
Income before transfers	13,915,774
Transfers from other county funds	15,374,170
Transfers to other county funds	<u>(818,405)</u>
Increase in net assets	28,471,539
Total net assets, July 1, 2003	<u>78,434,729</u>
Total net assets, June 30, 2004	<u><u>\$ 106,906,268</u></u>

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2004

Cash flows from operating activities:

Cash receipts from:

Contractors, patients, and other payors	\$ 291,419,330
Disproportionate share settlement	103,317,300

Cash payments to:

Contractors for healthcare services	(38,767,398)
Suppliers of goods and services	(74,436,896)
Employees for services	(188,881,574)
Disproportionate share reimbursements	(99,115,000)

Net cash used for operating activities	(6,464,238)
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Cash flows from noncapital financing activities:

Loan from county General Fund	21,864,994
Grant receipts	5,124,632
Cash transfers from other county funds	34,726,232
Cash transfers to other county funds	(467,860)
Interest payments	(507,980)
Loan payments to county General Fund	(47,285,472)

Net cash provided by noncapital financing activities	13,454,546
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Cash flows from capital and related financing activities:

Acquisition of capital assets	(3,511,612)
Proceeds from refunding lease revenue bonds	4,450,000
Proceeds from County for bond refunding contributions	442,083
County loan payment	(34,006)
Certificates of participation payments	(4,912,000)
Installment purchase contract payments	(1,098,475)
Lease revenue bond payments	(5,841,955)
Interest payments for long-term debt	(1,545,614)

Net cash used for capital and related financing activities	(12,051,579)
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Cash flows from investing activities:

Interest receipts	9,833
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Net cash provided by investing activities	9,833
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Net decrease in cash and cash equivalents	(5,051,438)
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Cash and cash equivalents, July 1, 2003	7,409,965
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Cash and cash equivalents, June 30, 2004	\$ 2,358,527
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(Continued)

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2004
(Continued)

Operating income	\$ 10,920,549
Adjustments to reconcile operating income to net cash used for operating activities:	
Depreciation	13,311,883
Provision for doubtful accounts	35,350,408
Indigent patient direct write-offs	16,938,127
Net changes in assets and liabilities:	
Accounts receivable	(49,562,303)
Due from other county funds	(35,370,782)
Inventory of supplies	(284,573)
Prepaid items	(27,792)
Vouchers payable	5,198,581
Employee compensation	937,564
Accrued liabilities	(3,687,505)
Due to other county funds	68,919
Due to other governments	(257,314)
	<hr/>
Net cash used for operating activities	<u><u>\$ (6,464,238)</u></u>

The following noncash transactions occurred during the year ended June 30, 2004:

Allowance for uncollectible accounts	\$ 53,817,758
Elimination of uncollectible accounts receivable	\$ (53,817,758)
Buildings	\$ 428,397
Improvements other than buildings	\$ 94,384
Deletions to accumulated depreciation	\$ (172,236)
Transfers to other county funds	\$ (350,545)
Vouchers payable	\$ 26,894
Reclassification of capitalized assets to expense	\$ (26,894)
Machinery and equipment acquired	\$ 601,094
Vouchers payable	\$ (601,094)
Expensed prepaid pharmacy start-up costs	\$ 583,137
Allocated pharmacy prepaid costs (other assets)	\$ (583,137)

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Maricopa County Medical Center have been prepared in a format that complies with the Health Care Organizations Audit and Accounting Guide of the American Institute of Certified Public Accountants and the regulatory reporting requirements of the State of Arizona. The accounting policies of the Medical Center conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Medical Center's more significant accounting policies follows.

A. Reporting Entity

The Medical Center is accounted for as an enterprise fund of Maricopa County, Arizona, under the direction of an administrator contracted by the County Board of Supervisors. However, ultimate fiscal responsibility for the Medical Center remains with the County. The Medical Center provides both inpatient and outpatient medical and nursing services to the general public, indigent patients of the County, and eligible enrollees of the Arizona Health Care Cost Containment System (AHCCCS).

B. Fund Accounting

The Medical Center's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Medical Center's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The Medical Center's financial transactions are recorded and reported as an enterprise fund since its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the County Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Presentation and Accounting

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2004

A statement of net assets provides information about the assets, liabilities, and net assets of the Medical Center at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy the Medical Center's obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation less any outstanding debt incurred to acquire or construct the assets. Restricted net assets represent monies held in the trustee accounts for future debt service payments. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net assets provides information about the Medical Center's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in assets are reported, including grants and transfers. Generally, patient service revenues and charges for services are considered to be operating revenues. Other revenues used for medical services, such as grant revenue and interest income, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of medical services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense are considered to be nonoperating expenses.

A statement of cash flows provides information about the Medical Center's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital and related financing, or investing.

The financial statements are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Medical Center applies only those applicable Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements. The Medical Center has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

D. Cash and Investments

For purposes of its statement of cash flows, the Medical Center considers only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents. All investments are stated at fair value.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2004

E. Accounts Receivable

Accounts receivable are due from a variety of self-pay, third-party, AHCCCS, and Medicare patients. The allowance for uncollectible accounts is based upon management's evaluation of the collectibility of the accounts.

F. Inventory of Supplies

Inventories are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in, first-out method.

G. Capital Assets

Purchased property, plant, and equipment are capitalized at actual cost. Major outlays for assets or improvements to them are capitalized as projects are constructed. Interest incurred during the construction phase of the project is capitalized net of interest earned on the invested proceeds over the same period. Depreciation of property, plant, and equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The capitalization threshold is \$5,000 or more for all capital purchases. The estimated useful lives are as follows:

Buildings	10 to 50 years
Improvements other than buildings	10 to 50 years
Machinery and equipment	3 to 10 years

H. Employee Compensation

Employee compensation consists of payroll and payroll-related costs incurred but not paid at June 30, and personal leave earned by employees based on services already rendered. Employees may accumulate up to 240 hours of personal leave depending on years of service, but any personal leave hours in excess of the maximum amount that are unused by the calendar year-end are converted to family medical leave (FML). Generally, FML benefits are used by employees for FML qualifying events and are cumulative but do not vest with employees and therefore, are not accrued. However, upon retirement, employees with accumulated FML in excess of 1,000 hours are entitled to a \$3,000 bonus. The total amount of such bonuses is immaterial and therefore it is not reported as employee compensation.

I. Patient Service Revenues

Patient service revenues, including services provided to indigent patients of the County, are recorded at established rates regardless of whether collection in full is expected. Contractual and administrative adjustments are recorded as deductions from patient service revenues.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2004

The Medical Center provides services to patients under a contractual agreement with the Medicare program. Amounts received from Medicare are determined based upon a mix of prospectively determined payments and reimbursement of allowable expenses for patient service costs, capital costs, and medical education costs.

The Medical Center also provides services to patients under agreements with AHCCCS, County Health Plans, and various county departments. The most significant agreements are with the Maricopa County Health Plan (MCHP) and Arizona Long-Term Care System (ALTCS) Health Plan. Payments for services under these agreements are based on discounted amounts from established rates.

J. Grant Revenue

Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenses are incurred.

K. Charity Care

Since the County owns and operates the Medical Center, the Medical Center is prohibited by Arizona Revised Statutes from providing care to patients without charging them for such services. Accordingly, there is no charity care recognized for the year ended June 30, 2004. However, the Medical Center, as a provider of care to indigent as well as nonindigent patients, does provide care to patients who may not have the ability to pay. Consequently, the charges (i.e., revenues) for the unreimbursed care provided to these patients are offset by increasing the allowance for uncollectibles.

Note 2 - Restricted Cash and Investments Held by Trustee

Cash and investments held by trustee comprise of debt service principal and interest payments that were due on July 1, 2004. These monies are externally restricted, uninsured, and unregistered with securities purchased by and held with the trustee in the County's name in the trustee's records.

Note 3 - Due from Other County Funds

Due from other county funds consisted of \$34,901,911 owed by the Maricopa County Health Plans (MCHP, ALTCS and Non-AHCCCS Funds) for medical services rendered and \$807,186 owed by other county funds for goods and services provided.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2004

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 1,722,193			\$ 1,722,193
Construction in progress	<u>7,379,859</u>	<u>\$ 1,517,606</u>		<u>8,897,465</u>
Total capital assets, not being depreciated	<u>9,102,052</u>	<u>1,517,606</u>		<u>10,619,658</u>
Capital assets, being depreciated:				
Buildings	101,529,184		\$ 455,291	101,073,893
Improvements other than buildings	3,688,988		94,384	3,594,604
Machinery and equipment	<u>80,490,874</u>	<u>1,928,972</u>		<u>82,419,846</u>
Total capital assets, being depreciated	<u>185,709,046</u>	<u>1,928,972</u>	<u>549,675</u>	<u>187,088,343</u>
Less accumulated depreciation for:				
Buildings	40,137,013	4,498,728	119,551	44,516,190
Improvements other than buildings	2,068,561	261,659	52,685	2,277,535
Machinery and equipment	<u>50,190,096</u>	<u>8,551,496</u>		<u>58,741,592</u>
Total accumulated depreciation	<u>92,395,670</u>	<u>13,311,883</u>	<u>172,236</u>	<u>105,535,317</u>
Total capital assets, being depreciated, net	<u>93,313,376</u>	<u>(11,382,911)</u>	<u>377,439</u>	<u>81,553,026</u>
Total capital assets, net	<u>\$102,415,428</u>	<u>\$ (9,865,305)</u>	<u>\$ 377,439</u>	<u>\$ 92,172,684</u>

Note 5 - Due to Other County Funds

Due to other county funds consisted of \$21,864,994 due to the County General Fund for monies received to temporarily eliminate cash overdrafts in the Medical Center Fund and \$77,327 due to other county funds for goods and services received.

Note 6 - Installment Purchase Agreements

Installment purchase contracts payable consist of agreements for the acquisition of MRI and cardiac ultrasound equipment at a total purchase price of \$2,382,705.

Debt service requirements to maturity under the contracts at June 30, 2004, including interest varying from 3.25 to 4.50 percent, are as follows:

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2004

	Principal	Interest
Year ending June 30		
2005	\$ 393,200	\$47,570
2006	340,435	31,402
2007	341,713	16,338
2008	<u>176,701</u>	<u>2,326</u>
Total	<u>\$1,252,049</u>	<u>\$97,636</u>

Note 7 - Certificates of Participation Payable

During the year ended June 30, 2001, the Medical Center issued \$6,975,000 in certificates of participation with interest rates of 4.50 to 5.50 percent to purchase and renovate a hospital and medical office complex. The certificates are generally callable after July 1, 2010, with interest payable semiannually.

Principal and interest requirements at June 30, 2004, were as follows:

Description	Interest Rates	Maturities	Outstanding Principal
Certificates of Participation 2001	4.7-5.5%	7/1/04-7/1/15	\$5,865,000

Certificates of participation debt service requirements to maturity at June 30, 2004, are as follows:

	Principal	Interest
Year ending June 30		
2005	\$ 365,000	\$ 289,508
2006	385,000	271,786
2007	400,000	253,043
2008	420,000	233,258
2009	445,000	212,170
2010-2014	2,595,000	692,961
2015-2016	<u>1,255,000</u>	<u>69,682</u>
Total	<u>\$5,865,000</u>	<u>\$2,022,408</u>

Note 8 - Bonds Payable

During the year ended June 30, 2001, the County issued \$124,855,000 in lease revenue bonds with interest rates of 3.45 to 5.50 percent. From the proceeds received, the County allocated \$20,500,000 to the Medical Center to construct a comprehensive health clinic. However, the Medical Center returned \$3,184,532 of unspent proceeds to the County on May 1, 2004. As a result, the outstanding principal was decreased by \$3,184,532 at June 30, 2004. The bonds are generally callable after July 1, 2012, with interest payable semiannually.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2004

During the year ended June 30, 2004, the County issued \$16,880,000 of refunding lease revenue bonds with interest rates of 2.50 to 4.00 percent to advance-refund older, higher-rate debts, with interest rates of 4.53 to 6.00 percent. The County allocated \$4,450,000 of refunding bond proceeds and contributed \$442,083, to refund the Medical Center's outstanding principal of \$4,103,000 for the certificates of participation series 2000, and to pay off \$649,892 in Medical Center installment purchase agreements. As a result, the refunded certificates of participation, series 2000, are considered defeased and the related liability is not included in the Medical Center's financial statements. This advance refunding was undertaken to reduce total debt service payments over the next 6 years by \$920,980 and resulted in an economic gain of \$459,356. The refunding lease revenue bonds are not callable with interest payable semiannually.

The County contribution of \$442,083 is an interest-free loan and the Medical Center recorded it as advances from other county funds on the financial statements. At June 30, 2004, the outstanding principal was \$408,077.

Bonds outstanding at June 30, 2004, were as follows:

Description	Interest Rates	Maturities	Outstanding Principal
Lease Revenue Bonds Series 2001	3.45-5.50%	7/1/04-7/1/15	\$12,144,289
Lease Revenue Bonds Refunding Series 2003	2.50-4.00%	7/1/04-7/1/12	\$4,450,000

Lease revenue bond debt service requirements to maturity June 30, 2004, are as follows:

	Principal	Interest
Year ending June 30		
2005	\$ 1,386,864	\$ 821,221
2006	1,458,937	694,343
2007	1,530,562	626,270
2008	1,606,741	563,381
2009	1,478,163	503,182
2010-2014	6,535,971	1,508,516
2015-2016	<u>2,597,051</u>	<u>143,079</u>
Total	<u>\$16,594,289</u>	<u>\$4,859,992</u>

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2004

Note 9 - Long-Term Liabilities

Long-term liability activity for the year-ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due within 1 year
Advances from other funds		\$ 442,083	\$ 34,006	\$ 408,077	\$ 34,006
Installment purchase agreements	\$ 2,350,524		1,098,475	1,252,049	393,200
Certificates of participation	10,777,000		4,912,000	5,865,000	365,000
Bonds payable	<u>17,986,244</u>	<u>4,450,000</u>	<u>5,841,955</u>	<u>16,594,289</u>	<u>1,386,864</u>
Total Long-Term Liabilities	<u>\$31,113,768</u>	<u>\$4,892,083</u>	<u>\$11,886,436</u>	<u>\$24,119,415</u>	<u>\$2,179,070</u>

Note 10 - Disproportionate Share Settlement

Section 1923 of the Social Security Act establishes federal requirements designed to aid entities that provide medical services to a disproportionate share of medically indigent patients. These requirements were met for the year ended June 30, 2004, through disproportionate share settlements established by Laws 2003, First Regular Session, Chapter 262 and Laws 2004, Second Special Session, Chapter 277. AHCCCS was directed to distribute such settlements based on various qualifying criteria and allocation processes. Laws 2003 and Laws 2004 appropriated disproportionate share settlement amounts to be distributed to the hospitals for the year ended June 30, 2004. The Medical Center's share of the settlement for the year ended June 30, 2004, totaled \$103,317,300. However, Laws 2003, First Regular Session, Chapter 265 and Laws 2004, Second Regular Session, Chapter 277 also mandated the reimbursement of \$99,115,000 through the State Treasurer to the State General Fund.

Note 11 - Related Party Transactions

During the year ended June 30, 2004, patient service revenues and charges for services included \$55,920,172 and \$20,823,685 earned from the county MCHP, ALTCS, and Non-AHCCCS Funds, respectively. In addition, transfers of \$15,374,170 in subsidies were received from the County General Fund.

Note 12 - Risk Management

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; and natural disasters. The Medical Center is a participant in

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2004

Maricopa County's self-insurance program, and in the opinion of the Medical Center's management, any unfavorable outcomes from these risks would be covered by that self-insurance program. Accordingly, the Medical Center has no risk of loss beyond adjustments to future years' premium payments to Maricopa County's self-insurance program. All estimated losses for unsettled claims and actions of Maricopa County are determined on an actuarial basis and are included in the *Maricopa County Comprehensive Annual Financial Report*.

Note 13 - Retirement Plan

Plan Description—The Medical Center contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Medical Center's contribution rate. For the year ended June 30, 2004, active plan members and the Medical Center were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Medical Center's contributions to the System for the years ended June 30, 2004, 2003, and 2002 were \$9,164,305, \$3,771,167, and \$2,629,401, respectively, which were equal to the required contributions for the year.

Note 14 - Subsequent Event

During the November 2003 election, voters approved the creation of a healthcare district to operate the Maricopa Integrated Health System (MIHS), which includes the Medical Center. The voters established an independent healthcare district governing board in the November 2004 election. The district board has the authority to levy taxes and control MIHS operations. The County plans to transfer its ultimate fiscal responsibility for the Medical Center to the new healthcare district on January 1, 2005. An intergovernmental agreement specifying the transfer terms was signed by both parties on November 1, 2004. This agreement outlined the transfer of all assets and liabilities to the Special Health Care District. Accordingly, the Medical Center will be part of the healthcare district as of that date.